

**STATE OF NEW JERSEY**  
**Board of Public Utilities**  
*Two Gateway Center*  
*Newark, NJ 07102*

IN THE MATTER OF THE PETITION OF SOUTH )  
JERSEY GAS COMPANY FOR )  
AUTHORIZATION THROUGH JUNE 30, 2005; (i) )  
TO MAKE, EXECUTE AND DELIVER )  
PURSUANT TO N.J.S.A. 48:3-7 A TWENTY- )  
THIRD (23<sup>RD</sup>) SUPPLEMENTAL MORTGAGE )  
INDENTURE AND ADDITIONAL )  
SUPPLEMENTAL MORTGAGE INDENTURES )  
PROVIDING FOR THE ISSUANCE OF A FIRST )  
MORTGAGE BOND OR BONDS WITH A )  
MATURITY OR MATURITIES OF NOT MORE )  
THAN FORTY (40) YEARS IN AGGREGATE )  
PRINCIPAL AMOUNT OF NOT MORE THAN )  
\$150,000,000; (ii) TO MAKE, EXECUTE AND )  
DELIVER PURSUANT TO N.J.S.A. 48:3-7 SUCH )  
OTHER SUPPLEMENTAL INDENTURES, AND )  
TO ISSUE SUCH FIRST MORTGAGE BONDS )  
THEREUNDER, AS SHALL BE NECESSARY TO )  
COMPLETE THE TRANSACTIONS )  
CONTEMPLATED IN THIS PETITION; (iii) TO )  
ISSUE AND SELL MEDIUM TERM NOTES WITH )  
A MATURITY OF NOT MORE THAN FORTY (40) )  
YEARS IN AN AGGREGATE PRINCIPAL )  
AMOUNT OF NOT MORE THAN \$150,000,000; )  
(iv) TO MAKE, EXECUTE AND DELIVER A )  
TRUST INDENTURE OR TRUST INDENTURES )  
PROVIDING FOR THE ISSUANCE OF MEDIUM )  
TERM NOTES; AND (v) TO REDEEM, )  
REFINANCE OR DEFEASE ANY OR ALL OF ITS )  
OUTSTANDING LONG-TERM DEBT )  
SECURITIES AS LONG AS THE REDEMPTION, )  
REFINANCING OR DEFEASANCE IS )  
ACCOMPLISHED ON A COST SAVING BASIS )

ENERGY

ORDER OF APPROVAL

DOCKET NO: GF02050296

Cozen O'Connor, Attorneys by Ira G. Megdal, Esq., Cherry Hill, New Jersey for South  
Jersey Gas Company

Fred S. Grygiel, Chief Economist, Mark C. Beyer, Manager, for the Office of the  
Economist on behalf of the Staff of the Board of Public Utilities

BY THE BOARD:

South Jersey Gas Company (Petitioner, Company, or South Jersey), a public utility of the State of New Jersey, by Petition filed on May 21, 2002 pursuant to N.J.S.A. 48:3-7, N.J.S.A. 48:3-9, and N.J.A.C. 14:1-5.9, requested authority: (i) to make, execute and deliver pursuant to N.J.S.A. 48:3-7 a Twenty-Third (23<sup>rd</sup>) Supplemental Mortgage indenture and additional supplemental mortgage indentures providing for the issuance of a First Mortgage Bond or Bonds with a maturity or maturities of not more than forty (40) years in aggregate principal amount of not more than \$150,000,000; (ii) to make, execute and deliver pursuant to N.J.S.A. 48:3-7 such other supplemental indentures, and to issue such First Mortgage Bonds thereunder, as shall be necessary to complete the transactions contemplated in this Petition; (iii) to issue and sell Medium Term Notes with a maturity of not more than forty (40) years in aggregate principal amount of not more than \$150,000,000; (iv) to make, execute and deliver a Trust Indenture or Trust Indentures providing for the issuance of Medium Term Notes; and (v) to redeem, refinance or defease any or all of its outstanding long-term debt securities as long as the redemption, refinancing or defeasance is accomplished on a cost saving basis.

Petitioner seeks authorization to engage in a transaction or series of transactions at any time through June 30, 2005, the net result of which will be the issuance of up to \$150,000,000 of Medium Term Notes (MTNs). The net proceeds of this transaction or series of transactions will be utilized to retire short-term debt and to fund capital expenditure requirements.

The MTNs may be issued as part of one, or as part of several series, and may be issued on a secured or on an unsecured basis. MTNs will be issued with maturities from 1 to 40 years and with various specified conditions, including redemption provisions. The MTNs will be sold at 100% of principal amounts, at discounts or at premiums.

MTNs may be issued in one or more series under an Indenture of Trust (the "Note Indenture") or under various Note Indentures between the Petitioner and The Bank of New York (formerly Guaranty Bank), or a similar financial institution, as trustee (the "Note Trustee" or "Note Trustees"). MTNs may be issued under the Note Indentures in one or more series from time to time without limit (up to aggregate of \$150,000,000). MTNs issued under the Note Indentures may be secured by the Pledged Bonds, discussed *infra*. Alternatively, Petitioner may elect to issue MTNs secured by other assets, or unsecured MTNs pursuant to a separate indenture or indentures between the Petitioner and The Bank of New York, or similar financial institution, as trustee. MTNs may also be issued on a secured, or on an unsecured basis, not under the Note indenture or Note Indentures.

The Company may also issue the MTNs as mortgage bonds under its First Mortgage Indenture dated October 1, 1947 from Petitioner to The Bank of New York as Trustee (the "Mortgage Indenture"). MTNs issued under the Mortgage Indenture will be issued pursuant to one or more supplemental indentures under the Mortgage Indenture. As a result, it may be necessary for Petitioner to make, execute and deliver multiple supplemental Mortgage Indentures in addition to the Twenty-Third Supplemental Indenture. The Petitioner will choose to issue MTNs under the Note Indenture or under the Mortgage Indenture, or under a different Indenture or Indentures or both or without a Note Indenture depending upon which structure in Petitioner's judgment allows it to issue MTNs with the least cost of issuance consistent with the greatest flexibility to obtain the best competitive rates in financial markets.

Petitioner proposes that the interest rates to be borne by the MTNs will be set within maximum coupon spreads over U. S. Treasury securities as provided in the Market Yield Spread Table set forth below:

#### MARKET YIELD SPREAD TABLE

<u>Range of Maturities</u>	<u>Maximum Coupon Spread Over U.S. Treasury Securities (Basis Points)</u>
1 yr. to less than 18 mos.	135
18 mos. to less than 2 yrs.	145
2 yrs. to less than 3 yrs.	150
3 yrs. to less than 4 yrs.	155
4 yrs. to less than 5 yrs.	160
5 yrs. to less than 7 yrs.	165
7 yrs. to less than 10 yrs.	180
10 yrs. to less than 15 yrs.	210
15 yrs. to less than 20 yrs.	220
20 yrs. to 40 yrs.	240

Petitioner further proposes that in the event market conditions change, the Company may file an updated Market Yield Spread Table with the Board's Chief Economist for approval, before issuing MTNs with coupon rates that are not within the Market Yield Spread Table set forth above.

The MTNs which petitioner proposes to issue will have differing maturity dates and will bear interest at different rates, and may contain other terms that vary from series to series. Any series of MTNs may be issued in an offering that will be registered under the Securities Act of 1933 (Securities Act), or in an offering that is not registered under the Securities Act. If any offering is not registered under the Securities Act, the sale will be made in a manner which yields the best results to the Company. If an offering is not registered under the Securities Act, South Jersey intends to sell the MTNs either to or through from one to three agents who will be accredited investors, as defined in rules adopted by the Securities and Exchange Commission ("SEC"). The successful bidder or bidders, in turn, may resell the MTNs to qualified institutional buyers, pursuant to Rule 144A of the SEC or to any eligible purchasers under an applicable exemption from registration under the Securities Act. The sale, in an unregistered offering, will be made to the agent or agents whose bid or bids results in the lowest effective cost of money to the Company. The agents to be utilized by the Company may change from offering to offering.

The terms and timing of the proposed MTNs cannot be determined at this time, as they will be dependent upon market and other conditions beyond Petitioner's control. Such determinations will depend upon the market conditions at the time of issuance and sale. However, Petitioner will select the form of instrument which in the judgment of Petitioner would allow the issuance and sale of MTNs in a financially advantageous manner. In order to provide Petitioner with the opportunity to take advantage of changing money market conditions and advantageously manage its cost of capital and meet competitive conditions, Petitioner requests that all MTNs be sold without further approval by this Board.

If secured MTNs are issued under the Note Indenture or Note Indentures, they will be secured with a bond (a "Pledged Bond") or Pledged Bonds that will be one or a series of bonds issued under the Mortgage Indenture ("Mortgage Bonds"). The Pledged Bond or Pledged Bonds, if any, issued to secure MTNs, will be issued under the Mortgage Indenture, as supplemented and amended and as to be supplemented by a Twenty-Third Supplemental Indenture or further Supplemental Indentures providing for the issuance of the Pledged Bond or Pledged Bonds to be dated as of the first day of the month of issuance of the Pledged Bond or Pledged Bonds. Said Mortgage Indenture is a first lien on substantially all of the property and franchises of Petitioner, now owned or hereafter acquired with certain delineated exceptions. The terms and conditions for the Twenty-Third Supplemental Indenture and other Supplemental Mortgage Indentures will be determined prior to the issuance of the Pledged Bond or Pledged Bonds. Petitioner may also issue additional supplemental indentures and additional mortgage bonds providing for the issuance of a Pledged Bond or Pledged Bonds or providing for the issuance of MTNs as mortgage bonds. Secured MTNs may also be issued without a Note Indenture or Note Indentures, and secured by assets other than a Pledged Bond or Pledged Bonds.

The Pledged Bond or other Pledged Bonds shall be issued in a principal amount up to \$150,000,000. The Pledged Bond or Pledged Bonds shall be issued and pledged by the Company and delivered to the Note Trustees in accordance with the Note Indentures. The Pledged Bond or Pledged Bonds will secure the payment of the principal of, and interest on, secured MTNs issued under the Note Indentures. The principal amount of the Pledged Bond or Pledged Bonds deemed outstanding will at all times be equal to the outstanding principal amount of the MTNs, to be secured by such Pledged Bond or Pledged Bonds.

Petitioner proposes to issue the MTNs in a program of approximately three (3) years duration, ending June 30, 2005. Petitioner makes this proposal because it is unlikely to issue MTNs in amounts approximating the amounts for which authorization is sought in this Petition, over a lesser period of time. Petitioner has submitted statements of projected cash flow which demonstrate that issuances of such amounts may only potentially take place over the period ending June 30, 2005. Petitioner asserts that utilization of such a duration of time will result in cost savings to Petitioner and its customers because the up-front costs of instituting an MTN program will only be incurred once during this period of time. The result will be a lower all-in cost for each individual issuance of MTNs under the program. Petitioner states that its objective is to achieve the best all-in cost for each issuance of MTNs.

Petitioner proposes to amortize the cost of issuances of the MTNs and any Pledged Bond or Pledged Bonds by monthly charges to Account Number 428, Amortization of Debt Discount Expense.

The Board after investigation, having considered the Petition and exhibits submitted in this proceeding, as well as supplemental information provided by the Petitioner FINDS that the proposed series of transactions is to be made in accordance with the law, and the Board approving the purposes thereof, HEREBY ORDERS that Petitioner be and is HEREBY AUTHORIZED through June 30, 2005 to: (i) make, execute and deliver pursuant to N.J.S.A. 48:3-7 a Twenty-Third (23<sup>rd</sup>) Supplemental Mortgage Indenture and additional supplemental mortgage indentures providing for the issuance of a First Mortgage Bond or Bonds with a maturity or maturities of not more than forty (40) years in an aggregate principal amount of not more than \$150,000,000; (ii) to make, execute and deliver pursuant to N.J.S.A. 48:3-7 such other supplemental indentures, and to issue such First Mortgage Bonds thereunder, as shall be necessary to complete the transactions contemplated in this Petition; (iii) to issue and sell

Medium Term Notes with a maturity of not more than forty (40) years in an aggregate principal amount of not more than \$150,000,000; (iv) to make, execute and deliver a Trust Indenture or Trust Indentures providing for the issuance of Medium Term Notes; and (v) to redeem, refinance or defease any or all of its outstanding long-term debt securities as long as the redemption, refinancing or defeasance is accomplished on a cost saving basis.

This Order is issued subject to the following provisions:

1. Petitioner will issue the various series of MTNs in compliance with this Order. No further Order of this Board shall be necessary for Petitioner to complete the series of MTN transactions proposed by Petitioner if the conditions of this Order are met.
2. With respect to each issue and sale of any MTNs, if any, which may be made through competitive bidding, and not registered under the Securities Act, Petitioner shall provide this Board with the following material for informational purposes, as soon as it is available, and in no event later than 24 hours prior to the time for the receipt of bids (which materials may be provided by mail or by facsimile transmission and confirmed by mail): (a) A statement with respect of bidding for the MTNs which shall specify (i) the date and time for receipt of bids for the MTNs, (ii) the principal amount of the MTNs, (iii) the series designation of the MTNs, (iv) the minimum and maximum percentage of principal amount which may be specified in the bid as the purchase price for the MTNs, (v) the term of the MTNs, (vi) the terms and conditions, if any, upon which the MTNs may be redeemed, whether at the option of the Petitioner, pursuant to any sinking fund or improvement fund for the MTNs, or otherwise, and (vii) such other provisions as may be established by Petitioner with respect to the terms and conditions of the MTNs and the bidding thereof; and (b) an assessment of the then current financial markets applicable to the MTNs which shall include (i) data with respect to recent sales of comparable securities of other utilities, (ii) interest rate spreads between United States Treasury Bonds and utility securities comparable to the MTNs, (iii) the anticipated number of bidders for the MTNs, (iv) the anticipated range of the yield of the MTNs based upon current market conditions, and (v) such other information as Petitioner shall deem relevant to assess the expected sale of the MTNs and the reasonableness of the annual cost of money rate thereof.
3. If, pursuant to competitive bidding procedures, if any, (a) at least three independent bids for the purchase of MTNs are received, (b) Petitioner accepts the bid which produces the lowest annual cost of money, and (c) the price to Petitioner in such bid is no less than 97% of principal amount and no more than 102% of principal amount, Petitioner may, without further Order of the Board, issue and sell the MTNs in accordance with the terms and conditions contained in such accepted bid. If (x) only one or two bids are received for the MTNs, or (y) Petitioner proposes to accept the bid which does not produce the lowest annual cost of money, or (z) the accepted bid provides for a price to the Petitioner of less than 97% of principal amount or more than 102% of principal amount, the proposed issuance and sale of the MTNs shall not be consummated until a further Order of the Board authorizing such issuance and sale has been entered.
4. If MTNs are sold pursuant to competitive bidding, Petitioner shall furnish this Board in writing as soon as practicable after accepting the bid for MTNs, the names of all principal bidders together with the interest rate, the annual cost of money to Petitioner, the price to the public, the percentage yield and the price to Petitioner applicable to each bid.

5. Whether the MTNs are sold in an offering that is registered under the Securities Act, or sold on a competitively bid basis, Petitioner shall not issue MTNs at coupon rates in excess of those that would result from the Market Yield Spread Table set forth in this Order. In the event that market conditions change, Petitioner may submit to the Chief Economist for approval a request to issue MTNs at coupon rates in excess of those that would result from the Market Yield Spread Table. Any such request submitted by Petitioner for approval of the Chief Economist shall be accompanied by a Petitioner's statement of the basis or the rationale therefore. If the Chief Economist approves a different Market Yield Spread Table proposed by Petitioner, Petitioner may then issue the MTNs.
6. Petitioner shall telephonically notify the Chief Economist prior to its issuance of MTNs, whether issued in an offering registered under the Securities Act or not, and will supply the following for informational purposes only: (i) principal amount or amounts of the MTNs proposed to be sold; (ii) anticipated maturity ranges; (iii) actual current yield of United States Treasury securities; (iv) range of estimated coupon spreads over United States Treasury securities; (v) data, as available, with respect to recent sale of comparable MTNs of other utilities; and (vi) such other information as Petitioner shall deem relevant to assess the reasonableness of the expected sale of the MTNs. Further, within seven (7) business days after the issuance and sale of any MTNs, Petitioner will provide the Chief Economist such information as was available at the time of sale upon which Petitioner based its decision to sell, such as market data with respect to utilities with similar credit ratings that have issued comparable securities.
7. Petitioner shall, as promptly as is practicable following the end of each month during which the MTNs are sold, file with the Board a statement which shall set forth the MTN transactions concluded during such month including the names of the agents and details of the transactions with the agents. Such statement shall also set forth (a) the principal amount, maturity date, redemption provisions, commissions and the interest rate spread over comparable United States Treasury securities for any MTNs sold and (b) the principal amount of the MTNs remaining authorized for issuance and sale in this Docket.
8. Petitioner shall issue the MTNs solely for the purposes authorized in this Order.
9. Petitioner shall furnish the Board with copies of each Note Indenture, similar indenture, and supplemental indenture, as executed.
10. Petitioner shall furnish this Board with copies of all final and complete documents as executed and filed with other regulatory agencies, including the Securities and Exchange Commission.
11. Petitioner shall semi-annually file with this Board, a statement setting forth; (a) the amount of MTNs issued pursuant to this order; and (b) details with respect to the disbursement of proceeds from such issuances.
12. This Order shall not be construed as a certification that the securities authorized to be offered for sale will be represented by tangible or intangible assets of commensurate value or investment costs.

13. This Order shall not effect nor in any way limit the exercise of the authority of this Board, or of the State of New Jersey in any future petition or in any proceeding with respect to rates, franchises, services, financing, accounting, capitalization, depreciation, or any other matters affecting the Petitioner.
14. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by Petitioner.
15. The authority granted in this Order shall become null and void and of no effect with respect to any portion thereof which is not exercised by June 30, 2005.

DATED: July 24, 2002

BOARD OF PUBLIC UTILITIES  
BY:

[SIGNED]  
JEANNE M. FOX  
PRESIDENT

[SIGNED]  
FREDERICK F. BUTLER  
COMMISSIONER

[SIGNED]  
CAROL J. MURPHY  
COMMISSIONER

[SIGNED]  
CONNIE O. HUGHES  
COMMISSIONER

ATTEST:

[SIGNED]  
KRISTI IZZO  
BOARD SECRETARY